

**EXHIBIT A**  
**LOAN POLICY**

## EXHIBIT A

### CITY OF \_\_\_\_\_ REVOLVING LOAN FUND LOAN POLICY

#### **1.0 INTRODUCTION**

The City of \_\_\_\_\_ Revolving Loan Fund (RLF) is designed to provide the critical and necessary capital needs of small businesses in \_\_\_\_\_. The RLF is capitalized with funds from the State of California Small Cities Community Development Block Grant(CDBG) Program. The intent of the RLF is to provide "appropriate" assistance to businesses, which in turn will create and/or retain jobs, along with increasing the commercial and industrial base of the community.

A RLF, in this context, refers to a loan program in which loan repayments are "revolved" or "recycled" to be loaned again in the same program. Therefore, the initial funds that capitalize the Program will be used again to create additional jobs, assist more businesses and projects, and provide significant benefits beyond the RLF's initial loans.

#### **2.0 PURPOSE AND OBJECTIVES**

##### **2.1 PURPOSE**

The RLF is designed to provide a portion of a project's total financing requirements. The RLF will only provide the funds necessary to bridge the "financial gap" that allows the project to move forward. The RLF is targeted to businesses and projects that have the greatest potential for long-term job creation/retention, particularly jobs created and/or retained for persons from the targeted income group.

The RLF will assist businesses and projects that start-up, expand, and/or locate within the city limits of \_\_\_\_\_. The RLF proceeds can be used to finance:

- A. Working Capital/Lines of Credit,
- B. Inventory Purchase,
- C. Equipment Acquisition,
- D. Real Property Acquisition, Construction, Rehabilitation, and
- E. Furniture/Fixtures.

##### **2.2 ECONOMIC BENEFITS & OBJECTIVES**

The following elements are critical in the selection of loans for the RLF Program:

- existence of a "financial gap" that hinders the business or project from obtaining or affording the Project without the RLF.
- that the terms and conditions of the RLF are "necessary and appropriate".
- at least 51% of the jobs created and/or retained must be from the Target Income Group(TIG). The TIG is a low/moderate income person whose household income does not exceed 80% of \_\_\_\_\_ County's median household income. In order to meet the criterion for created/retained jobs, the employees must be

from the TIG at the time they are hired or retained. One hundred percent income verification is required.

- the loan meets the RLF's underwriting criteria.

## **2.3 SOURCE OF FUNDING**

The source of funding for the RLF is the State of California Small Cities Community Development Block Grant Program. Loans are not from the City's General Fund or from a redevelopment agency.

## **3.0 DESCRIPTION OF FUNDING**

### **3.1 GUIDELINES & FEATURES**

- |                    |         |          |
|--------------------|---------|----------|
| <b>Loan Amount</b> | Minimum | \$5,000  |
|                    | Maximum | \$50,000 |

This loan amount only applies to the RLF portion of the project. The maximum amount of the RLF loan may be exceeded on a case by case basis.

- **Leveraging:** The RLF Program's overall goal is two private dollars from equity and/or debt for every one RLF dollar loaned. On a case by case basis one private dollar per RLF dollar loaned may be accepted. A private dollar can be either a loan or owner equity. Owner equity can be cash and/or land. The land is counted only for construction projects. Expenditures made by the loan applicant prior to the RLF loan award are not counted unless made as part of the submittal, and made within 60 days of the RLF loan submittal, in anticipation of such submittal.
- **Loan Terms:** Up to thirty years, depending on the asset being financed, the "financial gap, and the demonstrated need for the RLF funds.
- **Interest Rate:** The interest rate is set based on the needs and demonstrated "financial gap" on each loan. If the financial gap is the availability of capital, the interest rate shall be at market. If the financial gap is the cost of capital(rate, term or collateral requirements), then the interest rate is set by evaluating the financial information to determine at what interest rate the project would be viable.
- **Prepayment Penalty:**None
- **Job Creation/Retention:** One job per \$35,000 loaned shall be achieved for the overall RLF Program. No loan shall exceed one job per \$50,000 loaned. At least 51% of the jobs created/retained shall be for those in the targeted income group(TIG).
- **Collateral Requirements:** All RLF loans shall be secured by collateral in order to maintain the RLF Program. No unsecured loans shall be made. Types of collateral may include:
  - liens on real property,
  - deeds of trust,
  - liens on machinery, equipment, or other fixtures,
  - lease assignments, as appropriate,
  - personal and/or corporate guarantees, as appropriate, and
  - other collateral, as appropriate.

### **3.2 GENERAL ADMINISTRATIVE FEATURE**

- confidentiality of financial information, as allowed by law
- equal opportunity/affirmative action policy
- attorney review of all contracts and legal forms
- monitoring and reporting forms
- collection and foreclosure policy
- compliance with HCD and HUD regulations
- the RLF staff will be responsible for overall project marketing, loan evaluation, loan packaging, and monitoring.

### **3.3 PROJECT EVALUATION CRITERIA**

- the number of jobs created/retained and the percentage benefiting members of the targeted income group
- the amount of private dollars leveraging RLF funds
- the financial viability of the proposed project
- the demonstrated need for the RLF funds (“appropriate” test)

### **3.4 GENERAL CREDIT REQUIREMENTS**

A Loan Applicant must be:

- be of good character,
- show ability to operate a business successfully,
- have enough borrowing ability or equity to operate, with the RLF loan, on a sound financial basis,
- show the proposed loan is of sound value or reasonably secure to assure repayment, and
- show that the past earning record and future prospects of the firm indicate ability to repay the loan and other fixed debt, if any, out of the profits.

### **3.5 LOAN PACKAGING**

The RLF staff will be responsible for RLF loan packaging activities, including review of all proposals presented to the Loan Advisory Board (LAB).

### **3.6 LOAN REVIEW**

The Loan Advisory Board shall be responsible for reviewing funding proposals and making recommendations to the City Manager. The City Manager of the City of \_\_\_\_\_ will make the final decision on approval or denial of all loan applications submitted, including terms and conditions of loan agreements. The LAB shall be comprised of:

- One representative of the \_\_\_\_\_,
- One representative of the \_\_\_\_\_, and
- One representative of the business community appointed by the City.

All projects meeting the established criteria shall be brought before the LAB.

### **3.7 LENGTH OF REVIEW PROCESS**

On average, the RLF review process takes six to eight weeks from submittal of a complete loan application to closing. Loan funds can be disbursed two to three weeks after signing the RLF documents. Final RLF approval will be contingent upon private lender and/or SBA approval of

any companion loans to the project. Every effort will be made to facilitate the process to coincide with the private lender, and the project's requirements.

### **3.8 LINKING JOBS WITH LONG-TERM UNEMPLOYED**

The City of \_\_\_\_\_ and the \_\_\_\_\_ work closely with the \_\_\_\_\_ to support the Job Training Partnership Act(JTPA) programs and services that provide assistance to the unemployed and low and moderate income persons. With the assistance of the State Employment Development Department, the three agencies regularly promote training activities and the labor market to potential employers in the area. Early and consistent involvement with each loan applicant will be an integral policy of the RLF.

The training, recruitment and placement activities currently operating in the community constitute the primary vehicle for insuring that the unemployed, underemployed and low and moderate income persons are linked with the jobs created through the RLF. These programs provide training and can be custom tailored specifically to meet a company's needs. Loan recipients in the RLF will be provided with a detailed description of the services and benefits, including financial, of participation in the JTPA program and will be referred to \_\_\_\_\_. The City will use cooperative agreements with the \_\_\_\_\_ to refer all borrowing companies to the JTPA program for prospective employers. All loan recipients will be required to sign a Loan Agreement. This loan agreement includes a non-financial employment plan agreement which lists specific jobs to be created with RLF funds and designates the \_\_\_\_\_ as the primary personnel resource for all available positions. \_\_\_\_\_ will provide 100% income verification of all hires placed by them.

## **4.0 ELIGIBILITY**

### **4.1 ELIGIBLE APPLICANTS**

Eligible applicants include on-going and start-up private, for profit business concerns, corporations, partnerships, sole proprietorships and cooperatives located in or expanding to \_\_\_\_\_. The project to be financed through the RLF must be within the incorporated area of \_\_\_\_\_.

### **4.2 ELIGIBLE USES**

The project must be commercial or industrial. RLF funds can be used for construction and permanent financing, working capital, inventory, equipment, real property acquisition, construction and rehabilitation.

#### **4.3 INELIGIBLE USES**

Projects must be located in the City of \_\_\_\_\_. Projects cannot be residential in nature. Projects must have reasonable assurance of repayment. Projects are not eligible if they create a conflict of interest pursuant to California Government Code §87100 et seq for any current City or \_\_\_\_\_ employee or Loan Advisory Board(LAB) member. Projects must create or retain jobs, primarily for the Targeted Income Group, and must leverage private or equity funds.

#### **4.4 ELIGIBLE COSTS**

- land costs, including engineering, legal, grading, testing, site, mapping and related costs associated with the acquisition and preparation of land
- building costs, including real estate, engineering, architectural, legal and related costs associated with acquisition, construction and rehabilitation of buildings including leasehold improvements
- working capital, inventory, machinery and equipment

#### **4.5 INELIGIBLE COSTS**

- costs incurred prior to the submittal of the loan application, except as specified in Section 3.1.
- costs other than those listed as eligible in Section 4.4.

#### **5.0 ROLE OF THE PARTICIPANTS**

##### **5.1 ROLE OF THE RLF STAFF:**

The RLF staff will, as required: 1) publicize and market the RLF; 2) screen all applicants for loans; 3) refer candidate that are not eligible, do not meet the RLF criteria or need technical assistance to the Small Business Development Center; 4) ask promising candidates to submit preliminary information and an application, along with accompanying financial information; 5) prepare package, along with recommendation to LAB; 6) if recommended, assist City with loan processing and closing; 7) once closed, monitor the loan, maintain the loan records, and monitor compliance with job objectives.

##### **5.2 ROLE OF THE LOAN COLLECTION AGENT**

The City of \_\_\_\_\_ will contract with a local lender to act as the City's loan collection agent. The duties of the collection agent will include the following: 1) loan servicing and accounting; 2) provide monthly receipts of loan payments to SBDC; 3) provide quarterly statements on each loan to SBDC; 4) in concurrence with the City's legal counsel, under take loan collections, including asset liquidation; 5) obtain credit reports on all loan applicants and provide such to \_\_\_\_\_.

##### **5.3 ROLE OF THE CITY**

The RLF staff will make the daily decisions called for or implied regarding the activities the RLF. Decisions to foreclose and declare defaults will be the responsibility of the City Manager, in consultation with legal counsel, based upon recommendations of the RLF staff and the Loan Advisory Board. The RLF staff will monitor on-going operations of the loan recipient, in conjunction with the City. The City will consult and monitor the RLF staff during the term of the

contract. The City will review all reports, financial information and performance reports on each loan during the term of the loan. The City will serve as the contact for the State Department of Housing & Community Development for the RLF program.

RLF staff will meet with each applicant to ensure that the applicants maintain the documentation required. RLF staff will brief applicants on their obligations and requirements of the program. The City with the assistance of the RLF staff will conduct an environmental review of the project as necessary.

RLF staff will refer potential applicants, including those ineligible or denied RLF financing, that need technical and management assistance to the appropriate organization. This will include referrals to \_\_\_\_\_, and financial institutions. As a condition of the loan, the City, LAB or RLF staff may require that applicants receive pre and/or post loan counseling.

The RLF staff and/or the City may require applicants who have received loans to undertake business counseling if it appears that the applicants financial position is declining and the RLF loan may become delinquent.

## **6.0 LOAN SELECTION & APPROVAL PROCESS**

### **6.1 PROCESS**

#### **6.1.(A) MARKETING**

The marketing of the RLF Program will accomplished by a variety of means. There will media coverage, marketing brochures, and joint marketing through \_\_\_\_\_ existing loan packaging and financial services. Local lenders will recommend clients and projects, when appropriate. The Small Business Development Center, local Realtors, and business associations will also refer potential applicants. The City and RLF staff will also use their existing business and community network to market the RLF Program.

#### **6.1.(B). PROCEDURE**

Once a potential project has been identified, the RLF staff will conduct a preliminary review of the project and applicant for eligibility with the established RLF criteria. If another lending source is more appropriate, or the project does not meet the RLF criteria, the staff will refer the prospective borrower to another organization for assistance.

If the project appears to meet the criteria, the applicant will be asked to submit preliminary information. Preparation and submission by applicant of preliminary information and supporting documents includes but not limited to: Business and Personal Tax Returns for the last three years or since commencement of operations (whichever is less), business financial statements(balance sheet and income statement) for current year and prior three years, current personal financial statements, credit history, and proposed project summary. Start-up businesses must submit proforma financial statements for the first year.

Preliminary information will be reviewed by the RLF staff. If the project is viable, the applicant will be asked to complete a formal RLF loan application. If the project or applicant is ineligible for RLF funding, the RLF staff will provide the applicant with a written explanation of the reason for ineligibility. If appropriate, referrals to other organizations will be made.

If the review is positive, the applicant will be invited to submit a formal application. The RLF staff will review with the applicant the formal RLF checklist and required information, forms and financial schedules deemed necessary by the RLF to complete the loan package. The RLF staff and the City will determine project needs/conformance with local requirements, as well as

determine the necessary environmental review for the project. City with the assistance of the RLF staff will begin the environmental review as necessary.

The applicant, in conjunction with the RLF staff and the City, will develop the employment plan.

Upon completion of the necessary information, and receipt of any required private lender commitment(including SBA approval), applications will be presented by the RLF staff to the LAB. The presentation will include a completed RLF loan report(sample attached as Exhibit \_\_\_\_). If the private funds are from equity, then the commitment letter must be from the applicant. The RLF staff presentation will include a recommendation. This recommendation will include the proposed terms and conditions, based upon HUD underwriting guidelines, the "appropriate" test, along with a checklist insuring that the loan meets the RLF guidelines and criteria.

The LAB will decide to recommend approval or to decline the loan request. If declined the applicant will be informed in writing by \_\_\_\_\_ as to the reason. If recommended, the LAB's recommendation can be under the terms and conditions proposed by the RLF staff or the LAB can recommend alternative terms and conditions. The LAB recommendation is to the City Manager. Prior to City Manager consideration, the RLF staff will review the loan package for completeness and regulatory compliance, as well as final review as to meeting the RLF guidelines and criteria.

If the City Manager approves or denies the loan request, the applicant will be notified in writing. If denied, the reasons for denial will be included.

#### **6.1.(C). LOAN CLOSING**

Upon approval by the Loan Advisory Board and the City Manager, the \_\_\_\_\_ will prepare for the loan closing. The Borrower will sign all the necessary documents and agreements. The \_\_\_\_\_ will request a drawdown of funds from the State Department of Housing & Community Development(the timing of the request may vary depending on the project). The \_\_\_\_\_ will prepare the loan closing documents, prepare title and lien searches, and UCC-1 filings, if appropriate(the sample pre-closing checklist and escrow instructions attached in Exhibits \_\_\_\_\_ will be developed and used for each loan closing). Legal counsel will review all agreements and documents, as necessary.

Loan closing will be undertaken by the \_\_\_\_\_ with counsel's assistance. At the time of closing, funds will be disbursed and the Borrower will be provided with a checklist outlining their obligations under the RLF Program.

\_\_\_\_\_ and counsel will complete any remaining legal, regulatory or other items(Exhibit \_\_\_\_ contains a sample checklist). Monitoring and compliance files will be set-up at this time.

#### **6.1.(D). LOAN MONITORING**

Two separate loan files will be maintained. The first is the legal file which holds all the loan documents, along with the collateral documents. The second is a credit file which shall contain the day-to day administrative records of the loan, financial statements and loan report. At a minimum the legal file shall include:

- Note
- Loan Agreement, including Non-Financial Employment Plan
- Mortgage
- General Security Agreement
- Personal Guaranty
- Corporate Guaranty



- Subordination Agreement
- Life Insurance Policy and Assignment
- Hazard Insurance Policy and Assignment
- General Resolution
- Certificate of Secretary
- Opinion of Counsel

Exhibit \_\_ is an explanation of the items in the legal file.

A reporting system will be established for each loan and the loan portfolio as a whole. The report should be up-dated at least quarterly. The RLF staff shall be responsible for preparation of this report. The report will be used by the RLF staff to monitor the loans and identify problems. The report will contain the following:

**Fund Report Balance:** A monthly summary of the beginning fund balance, principal and interest recaptured during the month, disbursements made during the month and funds committed but not yet disbursed, and amount remaining in the RLF which is unencumbered. The monthly receipts from the lender on each loan will serve as the basis for this report.

**Portfolio Summary Report:** A quarterly summary of the total loans outstanding and authorized loans. The report shall include a quarterly statement on each loan, prepared by the lender. The quarterly report shall include the last payment date and loan balance. Delinquent loans shall be identified and a summary of actions to date to collect delinquent loans shall be included.

**Employment Report:** A quarterly report on each project detailing the jobs created/retained, and those hired that meet the targeted income group criteria.

**Loan Loss and Delinquent File:** A list of all loans that have been classified as uncollectible and a summary of foreclosure procedures to date on the loan. Loans that are delinquent will also be listed, along with a summary of recommended steps, and steps taken to date.

**Tickler File:** A listing of the current loan portfolio and dates for receipt of financial statements, employment information, renewal of UCC-1 filings, review date, dates for insurance renewal and other information.

In addition, a loan monitoring file will be established which will include a summary of the monitoring requirements of the State Department of Housing and Community Development. A tickler file will be part of this overall file to insure that loan and RLF Program monitoring is undertaken and completed.